

June 2001

WEST VIRGINIA INFORMATIONAL LETTER

NO. 129A

TO: All Insurance Companies Licensed to Do Business in the State of West Virginia, Insurance Trade Associations, Insurance Media Publications and All Other Interested Persons.

RE: Credit Scoring Practices

This Informational Letter is intended to clarify and supplement Informational Letter 129 and will hopefully answer a number of questions which have arisen since its issuance.

Pursuant to the authority set forth in West Virginia Code Section 33-6-9, the West Virginia Insurance Commission's Rates and Forms Division will be re-examining certain previously approved rate and form filings of companies doing business in the lines of personal auto, homeowners', and accident & sickness insurance. If you are not doing business in these lines, *neither this letter nor Informational Letter 129 applies to you.*

If you are doing business in the lines of personal auto, homeowners' and/or accident & sickness insurance, we will be re-examining rate and form filings which include credit or credit scoring in any underwriting capacity, including, but not limited to, use as a factor in rating or tier placement determinations. Therefore, based on where your company falls in the following grouping, you are hereby given notice of the following:

Group 1

- If you are licensed to do business in the State of West Virginia for personal auto, homeowners' and/or accident & sickness insurance; and
- You have previously obtained approval for the use of credit or credit scoring in any underwriting capacity, including, but not limited to, use as a factor in rating or tier placement (whether you are actually currently using the information or not.)

You *must* resubmit to the Rates and Forms Division:

- The initial filing which granted such approval; and
- The most recent filing which approved any changes thereto; and
- A cover sheet which specifies that the filing is in response to Informational Letter No. 129A; and
- Completed answers to the questions in Attachment A of this letter.

Group 2

- If you are licensed to do business in the State of West Virginia for personal auto and homeowners' insurance; and
- You are using credit or credit scoring in any underwriting capacity, including, but not limited to, use as a factor in rating or tier placement determinations (even if you have not been previously approved.)

You **must** submit to the Rates and Forms Division:

- A letter detailing how you are using credit information; and
- Completed answers to the questions in Attachment A of this letter.

Group 3

If you do not use credit or credit scoring in any underwriting capacity, including, but not limited to, use as a factor in rating or tier placement determinations and you are doing business in the area of personal auto and/or homeowners' insurance, please submit to the Rates and Forms Division a letter indicating such.

Group 4

If you do not use credit for rating and/or underwriting purposes and have not previously filed for such approval, and you are not doing business in the areas of personal auto, homeowners' and/or accident & sickness insurance, **this letter does not apply to you**. However, it may be beneficial for the record to send a brief memo stating such.

The deadlines for re-submission of the filings and or any other information listed above will be as follows:

- Companies with names which begin with the letters S through Z must re-submit the filing(s) no later than August 1, 2001.
- Companies with names which begin with the letters K through R must re-submit the filing(s) no later than October 1, 2001.
- Companies with names which begin with the letters A through J must re-submit the filing(s) no later than December 1, 2001.
- If the first word in the company name is "The," the first letter of the company name is T and you must re-submit the filing by August 1, 2001.

If you have any questions regarding the contents of this Informational Letter, you may contact the Rates and Forms Division at (304) 558-2094.

Jane L. Cline
Insurance Commissioner

Attachment A

If you fall in Group 1 or Group 2 of Informational Letter 129A, please complete answers to the following questions and return to the Rates and Forms Division with your re-submission.

1. Is your algorithm based on your experience in West Virginia, or company wide, or have you purchased a canned algorithm (e.g. Fair-Isaacs), and what evidence do you have as to reliability?
2. What studies have been done to make certain your algorithm does not have a disparate impact on any particular class, racial, financial or otherwise?
3. To what coverages do you apply credit as a factor - list each, i.e., for auto: liability, collision, comprehensive, uninsured, underinsured, medical payments coverage, rental, towing, death and dismemberment; for homeowners: structure, out buildings, contents, debris removal, liability, optional coverages, etc.
4. If credit is used to determine tiers, what procedural safeguards are in place to avoid double dipping with territories and surcharges?
5. Do you pull the credit report yourself, have your agent do it, or use a third party, and what procedural safeguards are in place to avoid multiple searches on different dates?
6. When do you check the insured's credit in relation to renewals and what procedures are in place to avoid checking at times when insureds are known to be in more difficult straits, i.e., off work due to accident, following holidays, tax time, etc?
7. What source do you use to obtain the credit report and what procedures are in place to prohibit obtaining from multiple sources?
8. How do you treat a "no-hit" (no credit found) and what do you rely upon to believe your treatment is proper?
9. Once a tier or rating is established based, at least in part, on credit, how often do you follow up and what if any unilateral action do you take in the event of change?
10. What notice do you provide to your insureds as to the use of credit?

11. What notice do you provide to your insureds regarding a particular action taken based on the results of the credit information?
12. Whose credit do you consider, i.e, named insured; named insured and spouse/significant other, all drivers, all adult members of household, etc.?
13. What action do you take if an insured protests the accuracy of the credit report you relied upon?
14. What action do you take if the credit report is corrected?
15. Do you consider outstanding medical debt or judgements?
16. What credit factors do you consider, and, if weighted differently, what is the result?
17. If an insured is placed in a non-standard tier due to loss but successfully completes a three-year loss/violation free period, do you nonetheless refuse tier upgrade if credit is not preferred?